

Opening Statement by Ambassador Rita Hayes

November 14, 2000

Japan Trade Policy Review

Introduction

- The United States is pleased to participate in Japan's fifth trade policy review. As a leading economy and a major beneficiary of the open global trading system, Japan has a responsibility to promote the strengthening of the WTO through further trade liberalization.
- Since Japan's last review in January 1998, the Japanese economy has been the focus of great attention both domestically and internationally. As the second-largest economy in the world, Japan's sustained economic recovery is in the strong interest of all Members. Among the lessons learned from the global economic turmoil over the last three years, it is that a healthy Japan is good not just for Japan, but for the strength of the world economy as well.
- Therefore, we are pleased to see signs of Japan's slow emergence from its decade-long economic slump, with official government forecasts of 1.5 percent GDP growth for Japanese fiscal year 2000. My Government certainly is hopeful that these early signs of recovery will lead to full and robust growth in Japan.
- Nonetheless, we remain concerned about Japan's economic imbalances with the rest of the world. In particular, Japan's global current account surplus represents nearly 2.5 percent of GDP, considerably above the levels of most industrialized countries.
- To add to our concern, Japan's trade surplus with the United States topped \$73 billion in 1999, an all-time record. Annualized figures for 2000 show we should expect an even further rise to over \$80 billion. The surplus Japan enjoys with its Asian neighbors is showing a similar trend, registering just over a 30-percent jump during the first half of 2000 compared to the same period in 1999. Meanwhile, as we will discuss later, Japan continues to maintain significant barriers to imports. Japan must do its part to open its markets to foreign goods and services and end its unhealthy reliance on exports to boost growth at home.
- In addition, we share the concerns of many private sector analysts who view Japan's recovery as painfully slow and subject to considerable downside risk. After all, Japan's economic recovery has experienced setbacks before. We

strongly support the Secretariat's statement that "a sustained economic recovery can be achieved only through more aggressive structural reform that enhances competition." That's why we have made deregulation and structural reform the primary focus of our bilateral trade agenda since 1997.

WTO Report

- My Government has read the Secretariat's Trade Policy Review of Japan with great interest. One theme that stands out in the discussion is the continued opaque and barrier-ridden nature of the Japanese economy. It has clearly hindered recovery and for WTO Members, raises questions about Japan's commitment to WTO rules in practice.
- The report provides numerous examples of structural characteristics of the Japanese economy which restrict access for foreign goods and services and discourage foreign investment. Regrettably, many of these impediments were in place and raised by Japan's trading partners, including the United States, during its last review.
- For example, the report notes that while the Government of Japan has taken some steps to promote deregulation in the **telecommunications** sector, Japan's market remains monopolistic, afflicting Japan with rates for telephone and Internet services well above developed-country standards. Japan's willingness to protect the dominant carrier, rather than promote competition in this sector is hampering growth in the single most promising field for Japan and for the rest of the world: information technology. We continue to urge Japan to establish a strong independent regulator whose mandate is to spur competition in the market.
- **Competition** issues have become all the more important in gaining access to Japan's market since the last Trade Policy Review in 1998. In sector after sector, ranging from telecommunications to energy to flat glass, foreign suppliers are faced with countless examples of barriers impeding access to the Japanese market that are attributable in part to the lack of effective enforcement of national laws which in many countries operate in tandem with WTO commitments. We firmly believe that Japan's efforts in this area will remain inadequate until it significantly strengthens its ability to enforce its laws, including more criminal prosecution, higher penalties for violations, and increased resources at the Japan Fair Trade Commission (JFTC), as was noted in the Secretariat's report. We also urge the JFTC to become more proactive in encouraging the establishment and maintenance of competitive market structures in addition to vigorous enforcement of the Antimonopoly Act. Moreover, at a time when a strong and independent JFTC is gravely needed, we are alarmed that the GOJ appears to be moving in the opposite direction. Under the government reorganization scheduled for January, the JFTC will be subsumed under the new Ministry of General Affairs, linking its operations with the Ministry of Posts and Telecommunications and the Management and Coordination Agency. We strongly urge the GOJ to take formal

steps to safeguard the JFTC's independence and bolster its role in the Japanese economy following this planned administrative reform.

- The report also highlights the continued problems plaguing Japan's **agricultural** sector. With high average tariff rates on agriculture imports and considerable domestic support for the industry – at levels well above the OECD average – the sector remains insulated from foreign competition. The report notes that, not surprisingly, productivity in Japanese agriculture is low by national standards. The OECD estimates that the total transfers to agriculture were higher than the sector's value added during the period 1990-1998. The WTO Agreement on Agriculture helped establish the necessary conditions for long term agricultural reform but it is important to build upon the foundation by accelerating the process of reducing trade distortions. The WTO negotiations on agriculture under the built-in agenda offer an opportunity to lower tariffs and bind them and substantially reduce trade-distorting domestic supports. We strongly urge the GOJ to support proposals in the agricultural talks to reduce substantially or eliminate disparities in tariff levels among countries and reduce substantially the disproportionate levels of support members use.
- The Secretariat's report points out Japan is ranked 19th among OECD countries with respect to foreign direct **investment** (FDI) inflows, even though it is the OECD's second-largest economy. These persistently low levels of FDI reveal the complex web of structural and regulatory obstacles that present formidable barriers to foreign firms wishing to gain access to Japan's economy. Lack of rules on investment is not the problem. We note the significant rise in FDI into Japan, which recorded a 79 percent jump in fiscal 1999 from the previous year alone. Japan's stock of inward foreign direct investment (FDI), relative to the size of its overall economy, however, appears minuscule in comparison to that of other industrialized nations.
- Opaque **government procurement** practices continue to impede access to this important market in Japan and raise questions about Japan's commitment to the letter and spirit of the Government Procurement Agreement. Indeed, we note that since the last review in 1998, there has been an increased number of reports involving questionable government procurement deals. Our suppliers continue to face a series of barriers, including a lack of transparency, questionable standards and technical specifications in favor of domestic firms, and excessive use of single tendering. As the Secretariat's report notes, public works procurement is of particular concern. From July 1998 to July 1999, for the second year in a row, foreign design and construction firms won only \$50 million of Japan's \$250 billion Japanese public works market. We strongly concur with the report's observation that a more competitive tendering system may have reduced the costs of these projects, thereby easing pressure on Japan's strapped fiscal system.
- We also agree with the report's observation that Japanese suppliers of **services** are considerably protected from foreign competition through internal regulations,

state-ownership, and GOJ tolerance of anti-competitive private practices. Indeed, the various barriers that inhibit foreign penetration into this sector carry a heavy cost, particularly given the increasing importance of this sector as a contributor to output and employment in the Japanese and the world economy. Distribution services are a case in point. As the report notes, Japan's inefficient distribution system drives up the prices for consumer goods, including agriculture, and may be a factor leading Japanese businesses to relocate abroad. The General Agreement on Trade in Services provides a framework for addressing barriers to services. The WTO built-in agenda talks on services offer an opportunity to liberalize a broad range of service sectors. We strongly urge the GOJ to support proposals in the services talks to reduce current restrictions. We also encourage the GOJ to support proposals to improve regulatory practices across industries to ensure that domestic regulations do not undermine efforts to increase market access.

Deregulation

- Now I want to turn briefly to one subject which, as already mentioned, we believe must be an integral part of any GOJ effort to secure a self-sustained economic recovery in Japan: deregulation and structural reform.
- We commend the Government of Japan for taking some important steps since the 1998 review to unravel the web of regulations shackling the Japanese economy, particularly in the financial services sector. We also welcome the measures undertaken to increase the transparency of Japan's regulatory regime. However, we share the concerns noted in the Secretariat's report that Japan has been showing recent signs of "reform fatigue."
- We can't stress enough just how valuable continued deregulation is to the health and strength of the Japanese economy and in meeting WTO rules in practice as well as in name. The economic value of deregulation has already been well documented, both in theory and in practice. Indeed, according to a study by Japan's Economic Planning Agency this year, deregulation steps implemented since 1989 have resulted in real terms in savings of roughly \$82 billion in savings for Japanese consumers. The study also found that in 1998 alone, an average Japanese family of four saved approximately \$450 in domestic telecommunication and electricity charges as a result of regulatory reform measures. We urge Japan to renew its commitment to reform to show to the Japanese public, and the international community, that the Government of Japan is resolved to get the Japanese economy back on track.
- The United States is heartened by recent news that Prime Minister Mori's administration is placing a priority on fostering an "IT revolution" in Japan within five years time. We certainly agree with Japan's report to the WTO that "IT will be one of the most potent forces in shaping the 21st Century." There is no better way for Japan to demonstrate its determination to become a major IT player than

by working constructively bilaterally and multilaterally, including through our WTO e-commerce work.

- Another new area which we hope will have far-reaching implications for foreign firms operating in Japan is the GOJ's announcement of a major initiative to reform its Commercial Code – the first such revision in half a century. We believe the revisions should help further integrate Japan into the international economy and look forward to providing input into this process. Ultimately, this comprehensive review will strengthen Japanese firms and improve the business environment for foreign firms.
- Before closing, we note the recent fundamental change in Japan's trade policy towards embracing free trade agreements, highlighted in the Secretariat's report. After years of expressing concern with the formation of FTAs among other countries, Japan now is embarking on its own FTA initiative, starting with Singapore, and possibly expanding to other WTO members as well. As a participant in a number of FTAs, the United States fully recognizes the value of such arrangements. However, in line with WTO disciplines, we strongly believe such agreements need to cover substantially all trade, contribute to multilateral trade liberalization, and must not result in higher barriers to third countries. We will be closely monitoring Japan's participation in these arrangements, particularly in light of the well-known sensitivities of one particular sector in Japan.

CONCLUSION

- In conclusion, we recognize that there have been significant positive changes in the Japanese economy since the last TPR review. However, whether these mark the beginning of a series of broad and fundamental changes that will have a genuine and lasting effect on the Japanese economy remains to be seen. Certainly, Japan needs to put as a top priority the pursuit of a more aggressive deregulation and structural reform program that opens its markets to foreign competition across a wide range of industrial, agricultural, and service sectors. By promoting sweeping deregulation, further opening its markets, enacting a healthy dose of corporate reform, and strengthening its competition policy laws, activities, and enforcement efforts, we are confident that the Japanese Government will be successful in securing a sustained economic recovery.
- We welcome Japan's recognition in its report that it has benefitted from the multilateral trading system and that it has a responsibility to maintain and strengthen the system. We could not agree more. In addition, we share the GOJ's stated belief that developing and least-developed countries, as well as the economies in transition, should share the benefits of the WTO system, and hope that WTO members can work together to successfully achieve this goal.

- We have provided Japan a list of comments and questions on its trade policy system and are eager to discuss the Government of Japan's responses to our inquiries on Thursday.